

Report
of the
Examination of
Thrivent Financial for Lutherans
Minneapolis, MN
As of December 31, 2004

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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September 30, 2005

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Commissioners:

In accordance with the instructions of the Wisconsin Commissioner of Insurance, a
compliance examination has been made of the affairs and financial condition of:

THRIVENT FINANCIAL FOR LUTHERANS
Minneapolis, MN

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Thrivent Financial for Lutherans (Thrivent Financial or the society, formerly known as Aid Association for Lutherans) was conducted in 2000 as of December 31, 1999. The current examination covered the intervening period ending December 31, 2004, and included a review of such 2005 transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of Thrivent Financial's operations and included the following areas:

- History
- Management and Control
- Corporate Records
- Conflict of Interest
- Fidelity Bonds and Other Insurance
- Employees' Welfare and Pension Plans
- Territory and Plan of Operations
- Affiliated Companies
- Growth of Society
- Reinsurance
- Financial Statements
- Accounts and Records
- Data Processing

Emphasis was placed on the audit of those areas of the society's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the society to satisfy the recommendations and comments made in the previous examination report.

The section of this report titled "Summary of Examination Results" contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the society's operations is contained in the examination work papers.

Thrivent Financial is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain

documentation with respect to the alternative or additional examination steps performed during the course of the examination.

Independent Actuary's Review

An independent actuarial firm was engaged under a contract with the Office of the Commissioner of Insurance. The actuary reviewed the adequacy of aggregate life and annuity reserves, aggregate accident and health reserves, refunds to members, asset adequacy analysis, and deferred life insurance premiums. The actuary's results were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the actuary's conclusion.

II. HISTORY AND PLAN OF OPERATION

Thrivent Financial for Lutherans is a Wisconsin-domiciled fraternal benefit society authorized to conduct insurance business pursuant to ch. 614, Wis. Stat. The society was initially organized in 1902 under the name Aid Association for Lutherans (AAL). The present-day society was established effective January 1, 2002, upon the merger of the Lutheran Brotherhood (LB) fraternal society into Aid Association for Lutherans.

Lutheran Brotherhood was a Minnesota-domiciled fraternal benefit society originally founded in 1917 under the name Luther Union and resulted from the 1917 Merger Convention of the Norwegian Lutheran Church of America. The Merger Convention approved the formation of Luther Union as a not-for-profit mutual aid society. Luther Union merged with Lutheran Brotherhood of America in 1920 and adopted the corporate name Lutheran Brotherhood.

Prior to the 2002 merger, AAL and LB were separate, independent fraternal societies, with home offices and business operations located in Appleton, Wisconsin, and Minneapolis, Minnesota, respectively. Each society operated as a life insurer under the ownership and control vested in its respective policyholder membership. In 2001, the supreme governing body of each of the two predecessor societies voted upon and approved the 2002 merger of Aid Association for Lutherans and Lutheran Brotherhood as just and equitable to its membership, pursuant to corporate governance provisions of the respective society's articles of incorporation and bylaws.

Under the 2002 merger, Lutheran Brotherhood merged into and with AAL, and AAL was the surviving corporate entity. AAL subsequently changed its name to Thrivent Financial for Lutherans, the name presently used by the society, effective May 21, 2002. The merger transaction was accounted for as a statutory merger, and prior-years financial information for the surviving combined entity have been restated to provide comparability with financial information of the present-day society. Thrivent Financial offers a broad range of insurance products, financial services, and fraternal benefits to its policyholders, non-policyholder members, and other Lutherans.

In 2004, the society collected direct life insurance premium and annuity considerations in the following states:

Minnesota	\$ 380,441,821	12.1%
Wisconsin	367,321,505	11.6
Illinois	201,453,857	6.4
California	189,015,611	6.0
Pennsylvania	173,697,766	5.6
All others	<u>1842,670,597</u>	<u>58.3</u>
Total	<u>\$3,154,601,157</u>	<u>100.0%</u>

The society is licensed in the District of Columbia and in all state jurisdictions.

The major insurance products offered by Thrivent Financial include level premium term life, traditional life insurance paid up at age 65 or age 100, universal life insurance, variable life insurance, participating whole life insurance, and disability income insurance. Annuity products offered include deferred annuities, immediate annuities, immediate variable annuities, and deferred variable annuities. Thrivent Financial withdrew from the long-term care insurance market effective January 20, 2003.

Thrivent Financial maintains statutory-basis separate accounts in which the assets and liabilities related to the society's variable universal life insurance and variable annuity contracts are administered. Separate accounts assets and liabilities represent funds for which the contract holders bear investment risk and are not available for the benefit of the general account. Variable account contract holders may choose to invest in one or more of 31 mutual fund account options within the separate accounts. Results from operations of the separate accounts are included in the financial statements of the separate accounts and are not included in the reported results from operation of Thrivent Financial for Lutherans. As of December 31, 2004, the Thrivent Financial for Lutherans Separate Accounts reported statutory total assets of \$7,712,614,027, total liabilities of \$7,701,627,045, and surplus of \$10,986,982.

Thrivent Financial uses a career agency system to procure business. The agency system consists of 31 regional financial offices (RFOs) which are similar to traditional general agencies. Each RFO is administered by a managing partner who has primary responsibility for recruiting, training and supervising the financial representatives within that RFO. The society currently has approximately 2,500 full time financial representatives disbursed among the

31 RFOs. Financial representatives are responsible for marketing to society members and to other prospects using an advice based model which evaluates the insurance, investment, and financial service needs and objectives of prospective customers.

The society's market segment focus is members of the Lutheran faith. The vast majority of Thrivent Financial sales are made through personal, face-to-face meetings of financial representatives with society members either in the member's home or at the financial representative's office. The primary products sold by society financial representatives include insurance policies and annuity contracts offered by Thrivent Financial for Lutherans and investment products offered by Thrivent Investment Management Inc.

The following chart provides a summary of the premium and contract income reported by the society in 2004. The growth of the society is discussed in the "Financial Data" section of this report.

2004 Premium Income

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Whole Life	\$ 580,740,627	\$0	\$ 8,090,443	\$ 572,650,184
Universal Life	516,544,480	0	5,673,787	510,870,693
Term	100,418,051	0	21,547,370	78,870,681
Variable Universal Life	62,807,320	0	577,615	62,229,705
Immediate Annuities	63,602,675	0	0	63,602,675
Deferred Annuities	2,041,533,493	0	0	2,041,533,493
Long-Term Care	203,155,425	0	0	203,155,425
Disability Income	55,485,199	0	508,173	54,927,026
Medicare Supplement	67,531,096	0	0	67,531,096
Disability	<u>14,715,059</u>	<u>0</u>	<u>0</u>	<u>14,715,059</u>
Total All Lines	<u>\$3,706,533,425</u>	<u>\$0</u>	<u>\$36,397,388</u>	<u>\$3,670,136,037</u>

III. MANAGEMENT AND CONTROL

Society Membership

The society's articles of incorporation provide for three membership classes: Benefit Members, Associate Members, and Youth Members. A Benefit Member is a person age 16 or older who has been accepted for membership in accordance with eligibility rules as determined by resolution of the board of directors and who is the applicant member on a certificate of membership and insurance pursuant to rules determined by resolution of the board of directors, or who receives a settlement agreement by virtue of such insurance. An Associate Member is a person age 16 or older who has been accepted for membership in accordance with eligibility rules as determined by resolution of the board of directors and who is issued a certificate of membership. A Youth Member is a person under age 16 that is eligible for membership and has been issued a certificate of membership or a certificate of membership and insurance.

All members of the society may participate in the affairs and activities of the chapter in which they are members. Benefit Members and Associate Members may hold office in their chapter, and Benefit Members may vote in the corporate and insurance affairs of the society. The board of directors annually conducts an election for the purpose of electing three Benefit Members to the board of directors. Benefit Members vote by ballot on a slate of candidates nominated by the board of directors and by the various chapters. Elected members of the board of directors whose terms do not expire with the current election constitute the Election Committee. Election results are tabulated by an independent CPA firm selected by the board, and are reported to the Election Committee, which recognizes each of the three candidates who receive the highest number of valid votes as duly elected to serve as a director of the society for a four-year term.

The following table reports the total number of all classes of members of the society for each year since the previous examination. Data reported for 2001 and prior years is the aggregate of AAL and LB memberships and includes numerous individuals who were members of both AAL and LB, and who are thereby included in the fraternal membership data of each of the predecessor societies prior to 2002. The 2002 membership data is adjusted to eliminate the effect of duplicate membership in AAL and LB.

Growth of Membership

Year	Members
2005	2,761,856
2004	2,787,363
2003	2,851,948
2002	2,897,059
2001	3,111,362
2000	3,027,884
1999	2,938,505

Board of Directors

The board of directors currently is comprised of 15 members, including 12 elected directors and 3 appointed directors. Society bylaws provide that the board shall consist of 12 directors duly elected by the Benefit Members of the society, plus up to 2 principal officers of the society and up to 4 Benefit Members of the society who are selected and appointed as members of the board by the elected directors. Three of the elected directors are elected annually to serve a four-year term of office. Appointed directors are appointed to serve a one-year term of office. The society's bylaws provide that society officers are elected at annual meeting of the board of directors.

Each board member currently receives an annual retainer of \$42,000 plus \$2,000 for each board meeting attended, \$1,500 for each regular committee meeting attended, and \$1,000 for each extra committee meeting attended. An annual retainer of \$6,000 is paid to the Chairman of each committee of the board except for the current Chairman of the Governance Committee, who also serves as the Vice Chairman of the board of directors. The current Vice Chairman of the board receives a \$20,000 annual retainer for services as Vice Chairman and does not receive compensation in the capacity of Chairman of the Governance Committee.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Richard E. Beumer Town & Country, MO	Retired Vice Chairman Jacob's Engineering Group, Inc.	2007
Dr. Addie J. Butler Philadelphia, PA	Assistant to V.P. for Academic Affairs Philadelphia Community College	2006
Robert H. Hoffman Waseca, MN	Vice President. Taylor Corporation	2007
James M. Hushagen Edgewood, WA	Attorney, Eisenhower & Carlson, P.L.L.C.	2008
Richard C. Kessler Windermere, FL	President, The Kessler Enterprise, Inc.	2006
Timothy J. Lehman Neenah, WI	President, Adult/Feminine Care Sector, Kimberly-Clark Corporation	2006
Richard C. Lundell Excelsior, MN	President, R.C. Lundell, Inc.	2006
John P. McDaniel Highland, MD	President and CEO, Medlantic Healthcare Group	2009
Paul W. Middeke St. Charles, MO	President, Worker Benefit Plans, The Lutheran Church, Missouri Synod	2008
Frank H. Moeller Austin, TX	President and CEO St. David's Health Care System	2006
Bruce J. Nicholson Eden Prairie, MN	President and Chief Executive Officer, Thrivent Financial for Lutherans	2006
Paul D. Schrage Scottsdale, AZ	Retired, McDonald's Corp.	2006
Dr. Kurt M. Senske Austin, TX	President and CEO, Lutheran Social Services of the South	2008
Dr. Albert K. W. Siu Carlisle, MA	Vice President, Learning Millennium Pharmaceuticals	2009
Adrian M. Tocklin St. Petersburg, FL	Retired, President and CEO CNA Financial	2007
Thomas R. Zehnder Baileys Harbor, WI	Retired Pastor	2009

Officers of the Society

The officers serving at the time of this examination are as follows:

Name	Office	2004 Compensation
Bruce J. Nicholson	President and Chief Executive Officer	\$1,554,572
Randall L. Boushek	Senior VP and Treasurer	715,126
Teresa J. Rasmussen ¹	Senior VP, General Counsel, and Secretary	
Susan Oberman Smith	Actuary	252,560
David M. Anderson	Senior VP—Financial Services Operations	222,341
Bradford L. Hewitt	Senior VP—Fraternal Operations	247,496
Jennifer H. Martin	Senior VP—Human Resources	449,959
Pamela J. Moret	Executive VP—Strategic Planning, Marketing and Products	827,167
Frederick A. Ohlde	Senior VP	326,711
Larry A. Robbins	Senior VP and Chief Information Officer	395,066
Nikki L. Sorum	Senior VP—Marketing	527,235
Jon M. Stellmacher	Executive VP and Chief Admin. Officer	467,422
Russell W. Swansen	Senior VP and Chief Investment Officer	458,299
James A. Thomsen	Senior VP—Field Distribution	740,263
Marie A. Uhrich	Senior VP—Communications	165,384

¹ Ms. Rasmussen commenced employment at Thrivent Financial in calendar year 2005, and was not eligible to receive employment compensation from the society during 2004.

Committees of the Board

The society's bylaws allow for the formation of certain committees by the board of directors. The committees at the time of the examination are listed below:

Audit Committee

James M. Hushagen, Chair
Paul W. Middeke
Adrian M. Tocklin

Finance and Investment Committee

Paul W. Middeke, Chair
Richard C. Lundell
Adrian M. Tocklin
Timothy J. Lehman

Fraternal Committee

Richard C. Kessler, Chair
Dr. Addie J. Butler
Thomas R. Zehnder

Governance Committee

Richard E. Beumer, Chair
James M. Hushagen
Paul D. Schrage
Dr. Kurt M. Senske

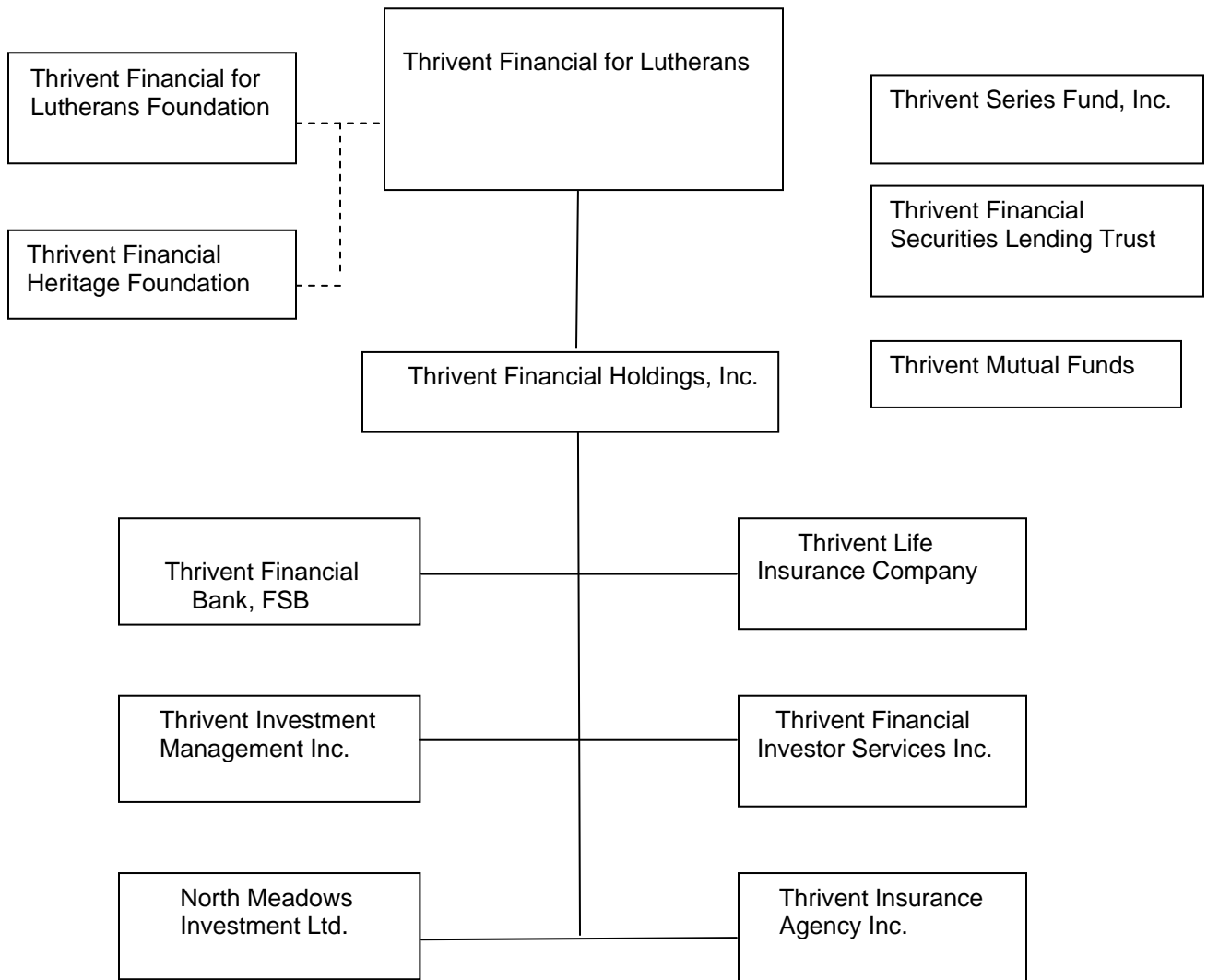
Human Resources and Executive Compensation Committee

Dr. Albert Siu, Chair
Robert H. Hoffman
John P. McDaniel
Frank H. Modler

IV. AFFILIATED COMPANIES

Thrivent Financial for Lutherans is the ultimate controlling parent company of the Thrivent holding company system. The organizational chart below depicts the relationships among the affiliates in the group. A brief description of the significant affiliates and significant affiliated agreements of Thrivent Financial for Lutherans follows the organizational chart.

**Organizational Chart
As of December 31, 2004**



Thrivent Financial Holdings, Inc. (TFHI)

Thrivent Financial Holdings, Inc., formerly known as AAL Holdings, Inc., is organized under the laws of Delaware and serves as an intermediate financial holding company of operating subsidiaries within the Thrivent group.

Concurrent with the merger of Lutheran Brotherhood with and into AAL, the Minnesota-domiciled financial holding company Lutheran Brotherhood Financial Corporation (LBFC) merged into AAL Holdings, Inc. AAL Holdings, Inc., changed its name to Thrivent Financial Holdings, Inc., effective September 1, 2002.

As of December 31, 2004, the audited financial statements of Thrivent Financial Holdings, Inc., reported assets of \$4,663,016,000, liabilities of \$4,304,041,000, and total shareholder's equity of \$358,975,000. Operations for 2004 produced reported net income of \$36,167,000.

Thrivent Financial Bank, FSB

Thrivent Financial Bank, FSB, formerly known as AAL Bank and Trust, FSB, or "AAL Bank," is a federal savings bank that provides banking services, trust account management services, and investment advisory accounts. Thrivent Financial Bank, FSB, is a registered investment advisor and obtains a significant portion of its investment advisory accounts through representatives of Thrivent Financial for Lutherans.

Concurrent with the merger of Lutheran Brotherhood with and into AAL, LB Community Bank and Trust, FSB, (LB Bank) merged into AAL Bank. LB Bank was chartered November 2, 1998, as a wholly owned subsidiary of LB Bancorp, which was in turn a subsidiary of Lutheran Brotherhood Financial Corporation. LB Bancorp was dissolved effective December 31, 2001. Upon the January 1, 2002, merger of LB Bank into AAL Bank, the assets and liabilities of LB Bank transferred to AAL Bank under the ultimate control of Thrivent Financial Holdings, Inc. AAL Bank changed its name to Thrivent Financial Bank, FSB effective September 1, 2002.

As of December 31, 2004, the audited financial statements of Thrivent Financial Bank, FSB, reported assets of \$385,909,000, liabilities of \$340,535,000, and total shareholder's equity of \$45,374,000. Operations for 2004 produced reported net income of \$3,318,000.

Thrivent Investment Management Inc. (TIMI)

Thrivent Investment Management Inc., formerly known as AAL Capital Management Corporation, is a registered securities broker/dealer and registered investment adviser and is a member of the National Association of Securities Dealers, Inc. (NASD). AAL Capital Management Corporation changed its name to Thrivent Investment Management Inc. effective July 1, 2002. TIMI serves as the investment advisor and distributor for the Thrivent Financial family of mutual funds and is the distributor for the Thrivent Financial variable annuity and variable life accounts.

As of December 31, 2004, the audited financial statements of Thrivent Investment Management Inc. reported assets of \$42,256,000, liabilities of \$13,040,000, and total shareholder's equity of \$29,216,000. Operations for 2004 produced reported net income of \$7,087,000.

North Meadows Investment Ltd.

North Meadows Investment Ltd. is a real estate development and investment company. As of December 31, 2004, the unaudited financial statements of North Meadows Investment Ltd. reported assets of \$18,776,000, liabilities of \$814,000, and total members' equity of \$17,962,000. Operations for 2004 produced a reported net loss of \$296,000.

Thrivent Life Insurance Company (TLIC)

Thrivent Life Insurance Company is a Minnesota-domiciled life insurer licensed in 42 states and in the District of Columbia. TLIC is authorized to provide variable life insurance and variable annuity products, and TLIC's insurance risks in force currently are comprised of a closed block of variable life and variable annuity contracts in run-off.

TLIC was originally incorporated under the laws of Minnesota effective April 20, 1982, under the name Lutheran Brotherhood Variable Insurance Products Company (LBVIP). LBVIP was a wholly owned insurance subsidiary of Lutheran Brotherhood Financial Corporation. Upon the merger of Lutheran Brotherhood with and into AAL, Lutheran Brotherhood Financial Corporation merged into AAL Holdings, Inc., and ownership of LBVIP transferred to Thrivent

Financial Holdings, Inc. LBVIP changed its name to Thrivent Life Insurance Company effective June 25, 2003.

As of December 31, 2004, the statutory audited financial statements of Thrivent Life Insurance Company reported assets of \$3,999,888,000, liabilities of \$3,865,881,000, and policyholders' surplus of \$134,007,000. Operations for 2004 produced reported net income of \$16,430,000.

Thrivent Financial Investor Services Inc. (TFIS)

Thrivent Financial Investor Services Inc., formerly known as Lutheran Brotherhood Securities Corp. or LBSC, serves as a transfer agent for the Thrivent Mutual Funds.

Prior to the merger of Lutheran Brotherhood with and into AAL, Lutheran Brotherhood Securities Corp. was a subsidiary of Lutheran Brotherhood Research Corp. (LBRC), which in turn was a subsidiary of Lutheran Brotherhood Financial Corporation. Concurrent with the merger of Lutheran Brotherhood and AAL, LBFC merged into AAL Holdings, Inc., and ownership of LBRC and its assets including LBSC transferred to Thrivent Financial Holdings, Inc. LBRC was effectively liquidated on January 1, 2003. Lutheran Brotherhood Securities Corp. changed its name to Thrivent Financial Investor Services Inc., effective November 1, 2002.

As of December 31, 2004, the unaudited financial statements of Thrivent Financial Investor Services Inc. reported assets of \$40,418,000, liabilities of \$37,413,000, and total members' equity of \$3,005,000. Operations for 2004 produced a reported net loss of \$4,058,000.

Thrivent Insurance Agency Inc.

Thrivent Insurance Agency Inc., formerly known as Field Agents' Brokerage Company, is an insurance brokerage company that offers for sale non-proprietary life and health insurance products that are marketed through financial representatives of Thrivent Financial for Lutherans. Thrivent Insurance Agency Inc. was acquired by Thrivent Financial Holdings, Inc., in 2002.

As of December 31, 2004, the unaudited financial statements of Thrivent Insurance Agency Inc. reported assets of \$5,145,000, liabilities of \$4,189,000, and total members' equity of \$956,000. Operations for 2004 produced net income of \$842,000.

Thrivent Series Fund, Inc. (TSFI)

Thrivent Series Fund, Inc., is an open-end management investment company initially organized on February 24, 1986, under the laws of Minnesota. Originally named LBVIP Series Fund, Inc., the investment company's name was changed to LB Series Fund, Inc., on October 28, 1993, and was changed to Thrivent Series Fund, Inc., effective May 1, 2004.

The general operation of Thrivent Series Fund, Inc., is managed by its Board of Directors. Each Thrivent Series Fund, Inc., director also serves as a trustee of Thrivent Mutual Funds and as a trustee of Thrivent Financial Securities Lending Trust. Thrivent Financial for Lutherans serves as the investment adviser of Thrivent Series Fund, Inc.

Thrivent Series Fund, Inc., is registered under the Investment Company Act of 1940. The investment company is comprised of 31 separate series or portfolio funds, each series existing as a separate investment mutual fund having specific investment specialization, risk modeling, and investment objectives. A separate class of capital stock of Thrivent Series Fund, Inc., is issued with respect to each separate investment fund series. The separate funds within Thrivent Series Fund, Inc., serve as the underlying investment alternatives for the variable annuity contracts and variable life insurance policies issued by Thrivent Financial for Lutherans and Thrivent Life Insurance Company.

Thrivent Financial Securities Lending Trust (TFSLT)

Thrivent Financial Securities Lending Trust was organized as a Massachusetts business trust effective August 5, 2004, and is an open-end management investment company consisting of one investment portfolio. The investment company was established for investment and reinvestment of cash collateral received by Thrivent Financial for Lutherans and its affiliates for investments loaned to third parties under securities lending agreements.

The general operation of Thrivent Financial Securities Lending Trust is managed by its Board of Trustees. Each trustee also serves as a director of Thrivent Series Fund, Inc., and as a trustee of Thrivent Mutual Funds. Thrivent Financial for Lutherans serves as the investment adviser of Thrivent Financial Securities Lending Trust.

Thrivent Financial Securities Lending Trust is registered under the Investment Company Act of 1940. The investment company's investment portfolio primarily consists of high-quality instruments including U.S. Government securities, corporate debt obligations, repurchase agreements, mortgage-backed securities, asset-backed securities, master term notes, and other investment companies registered under Section 21-7 of Investment Company Act of 1940.

Thrivent Mutual Funds

Thrivent Mutual Funds is an open-end management investment company that was initially organized as a Massachusetts business trust on March 31, 1987, under the name The AAL Mutual Funds. The investment company's name was changed to Thrivent Mutual Funds effective July 16, 2004.

The general operation of Thrivent Mutual Funds is managed by its Board of Trustees. Each trustee also serves as a director of Thrivent Series Fund, Inc., and as a trustee of Thrivent Financial Securities Lending Trust. Thrivent Investment Management Inc. serves as the investment adviser of Thrivent Mutual Funds.

Thrivent Mutual Funds is registered under the Investment Company Act of 1940. The investment company is comprised of 30 separate series or portfolio funds, each series existing as a separate investment mutual fund having specific investment specialization, risk modeling, and investment objectives. Investment in the separate portfolio funds within Thrivent Mutual Funds is marketed to individual investors.

Thrivent Financial for Lutherans Foundation

Thrivent Financial for Lutherans Foundation, formerly known as Lutheran Brotherhood Foundation, is a nonprofit, tax-exempt foundation that operates for charitable purposes serving the Lutheran community. The foundation is a Minnesota-domiciled private corporation primarily funded by Thrivent Financial. The name of the foundation was changed to Thrivent Financial for Lutherans Foundation effective September 18, 2002.

As of December 31, 2004, the audited financial statements of Thrivent Financial for Lutherans Foundation reported total assets of \$88,032,430, liabilities of \$12,169,142, and

unrestricted net assets of \$75,863,288. Activities for 2004 produced an increase in unrestricted assets of \$1,548,063.

Thrivent Financial Heritage Foundation

Thrivent Financial Heritage Foundation, formerly known as Lutheran Brotherhood Heritage Properties Foundation, is a Minnesota-domiciled public foundation created to develop assisted living facilities and to engage in other similar activities. Thrivent Financial Heritage Foundation has no members and is managed by a board of trustees appointed by the Chief Executive Officer of Thrivent Financial. The name of the foundation was changed to Thrivent Financial Heritage Foundation effective September 8, 2003.

As of December 31, 2004, the unaudited financial statements of Thrivent Financial Heritage Foundation reported total assets of \$5,027,200, liabilities of \$3,954,971, and net unrestricted net assets of \$1,072,229. Activities for 2004 produced an increase in unrestricted assets of \$576,186.

Agreements with Affiliates

Thrivent Financial Services Agreement with TFHI and TFIS

Thrivent Financial maintains an affiliated service agreement with Thrivent Financial Holdings, Inc., and Thrivent Financial Investor Services Inc. under which the parties provide services. Thrivent Financial provides to TFHI and TFIS general professional services, including management, auditing, investment, legal, financial accounting, systems analysis and consulting. Thrivent Financial also provides general administrative services, including payroll processing, purchasing, disbursement, and data processing. TFHI and TFIS provide to Thrivent Financial management and administrative services, including marketing support, product development, marketing development, EDP systems analysis, project management, and consulting. Each party reimburses its counterparties for the actual costs of provided services on the basis of comprehensive allocation formulas.

Thrivent Financial Management Services Agreement with TFIS

Thrivent Financial is party to a management service agreement with Thrivent Financial Investor Services Inc. whereby TFIS serves as a broker-dealer with respect to variable

insurance products offered by Thrivent Life Insurance Company. The agreement provides that all books and records pertaining to the TLIC variable insurance products are maintained by Thrivent Financial for Lutherans in conformity with provisions of the Securities and Exchange Act of 1934.

Thrivent Financial Services Agreement with Thrivent Financial Bank

Pursuant to a Service Agreement between Thrivent Financial and Thrivent Financial Bank, Thrivent Financial provides contractor services to Thrivent Financial Bank that include audit, finance, communications, payroll processing, marketing, legal, and product development services. Thrivent Financial charges fees for the services provided to Thrivent Financial Bank based on Thrivent Financial costs allocated in accordance with Thrivent Financial internal policies for allocation of costs to affiliated companies. The agreement affirms that the Office of Thrift Supervision has authority pursuant to the Bank Service Corporation Act related to the services performed under the agreement and affirms that Thrivent Financial is solely an independent contractor and does not assume responsibility for the bank's business or operations.

Thrivent Financial Master Services Agreement with Various Affiliates

Thrivent Financial maintains identical Master Service Agreements with Thrivent Investment Management Inc., North Meadows Investment Ltd., and three additional small affiliates. The agreements provide that Thrivent Financial will provide administrative services that include communications, corporate real estate, project management, executive oversight, field distribution, financial service operations, information technology, legal, and market and product development services.

Thrivent Financial Services Agreement with TLIC

Thrivent Financial and Thrivent Life Insurance Company are parties to a Service Agreement under which Thrivent Financial provides to TLIC all general services as necessary for the operations of TLIC, personnel, office space, premium collection and accounting, and claims adjudication and settlement. The agreement provides that Thrivent Financial will act in the name of TLIC as administrative manager with respect to the life insurance business of TLIC and will perform all administrative functions for processing of the business including billing, collection of premiums, processing of claims, maintenance of data processing and other records, underwriting,

and policy issuance. Premium is collected by Thrivent Financial in a fiduciary capacity and is paid to TLIC immediately upon collection. TLIC agrees to reimburse Thrivent Financial for reasonable costs of services, to be calculated by Thrivent Financial quarterly using reasonable allocation methodologies.

Thrivent Financial Provide Life Insurance Contracts Agreement with TLIC

Pursuant to the Provide Life Insurance Contracts Agreement between Thrivent Financial and TLIC, Thrivent Financial issues insurance contracts and riders to TLIC policyholders and insureds as they may be entitled to under exchange of contract, conversion, and related provisions contained in TLIC contracts. Thrivent Financial's obligation is limited to solely cover specific provisions of TLIC insurance contracts that establish the contract holder's right to receive a contract or service from Thrivent Financial, and the inclusion of such specific reference must be approved by Thrivent Financial before its inclusion in TLIC contracts. Subject TLIC insurance contracts include life, annuity, health, accident, disability, variable life and variable annuity contracts.

Thrivent Financial Principal Underwriting Agreement with TIMI

The Principal Underwriting Agreement between Thrivent Financial and TIMI establishes TIMI as Thrivent Financial's principal underwriter for the sale of contracts through the Thrivent Financial for Lutherans Separate Accounts. TIMI is registered as a broker-dealer under the Securities and Exchange Act of 1934 and is a member of the National Association of Securities Dealers, Inc. (NASD). Thrivent Financial agrees to take all actions required to cause the contracts to comply as an insurance contract and a registered security. TIMI is appointed to act as principal underwriter for marketing the contracts.

Application for the contracts is solicited solely by duly licensed and registered representatives of TIMI, and Thrivent Financial agrees to appoint TIMI representatives as life insurance or annuity agents of Thrivent Financial. Completed applications for separate accounts contracts are transmitted to Thrivent Financial for acceptance or rejection based on Thrivent Financial underwriting rules, and premiums received by TIMI are held in a fiduciary capacity and

are remitted promptly to Thrivent Financial. TIMI representatives are required to be registered as security agents with NASD.

Thrivent Financial Participation Agreement with TSFI

The Participation Agreement between Thrivent Financial and Thrivent Series Fund, Inc., governs the operation of investment accounts sponsored by Thrivent Financial and deposited in Thrivent Series Fund, Inc. TSFI is an open-end management investment company and its shares are registered with the SEC under the Securities Act of 1933. TSFI is a series company and its board may designate various series into which the authorized shares of Thrivent Series Fund, Inc., are to be divided. Contracts funded through the accounts established by Thrivent Financial are allocated to subaccounts for investment in shares of portfolios selected by Thrivent Financial Separate Accounts contract owners, with each portfolio evidenced by issuance of shares in the respective Thrivent Series Fund, Inc., series of equity shares. Fund shares will be sold only to Thrivent Financial, to other life insurance companies on behalf of separate accounts funding variable annuity and life contracts, and to qualified pension or retirement plans. No shares of Thrivent Series Fund, Inc., will be sold to the general public or to any life insurer on its own behalf except for Thrivent Financial.

Thrivent Financial Investment Advisory Agreement with TSFI

The Investment Advisory Agreement between Thrivent Financial and Thrivent Series Fund, Inc., provides that Thrivent Financial serves as the investment advisor of TSFI with respect to the portfolios of investments maintained in accounts in TSFI established and deposited by Thrivent Financial. Thrivent Financial provides continuously an investment program for the portfolios and determines what investments will be purchased, sold, or exchanged. Thrivent Financial's performance as advisor is subject to the overall supervision of the board of directors of TSFI, the Thrivent Series Fund, Inc., articles of incorporation, the stated investment objectives, policies and restrictions of the portfolios, and applicable provisions of law. Thrivent Financial as advisor is responsible for execution of all orders for purchase and sale of investments for the portfolios' accounts and it exercises full discretion and acts on behalf of TSFI.

Thrivent Financial Investment Advisory Agreement with TFSLT

The Investment Advisory Agreement between Thrivent Financial and Thrivent Financial Securities Lending Trust provides that Thrivent Financial serves as the investment advisor of Thrivent Financial Securities Lending Trust with respect to the investment portfolio maintained in TFSLT established and deposited by Thrivent Financial. Thrivent Financial provides continuously an investment program for the portfolio and determines what investments will be purchased, sold, or exchanged. Thrivent Financial's performance as advisor is subject to the overall supervision of the board of trustees of TFSLT, the Thrivent Financial Securities Lending Trust Declaration of Trust and By-Laws, the stated investment objectives, policies and restrictions of the portfolio, and applicable provisions of law. Thrivent Financial as advisor is responsible for execution of all orders for purchase and sale of investments for the portfolio's accounts and it exercises full discretion and acts on behalf of TFSLT.

V. REINSURANCE

Thrivent Financial's reinsurance portfolio and strategy are described below. Each of Thrivent Financial's reinsurance contracts contains proper insolvency provisions.

Thrivent Financial maintains ceding reinsurance agreements with authorized reinsurers to enable Thrivent Financial to maintain desired levels of risk exposure and to diversify and mitigate risk on selected lines of business. Thrivent Financial's maximum retention for each individual life risk is \$2,000,000, and its maximum retention for each joint life risk is \$3,000,000. Thrivent Financial does not assume any reinsurance risks and is not party to any reinsurance assumption agreements. In 2004, Thrivent Financial ceded insurance premium considerations of \$33.4 million, which equaled 1% of the gross premium and annuity considerations received by the society in 2004.

Thrivent Financial currently has five active ceded reinsurance agreements for the cession of new risks and is party to numerous closed ceded reinsurance agreements that pertain to cessions on closed blocks of business originally written by Aid Association for Lutherans and Lutheran Brotherhood. The following summary of Thrivent Financial's reinsurance program is limited to discussion of the current reinsurance agreements plus one significant closed agreement.

Current Ceded Reinsurance Agreements

Thrivent Financial maintains a facultative yearly renewable term basis reinsurance agreement with General and Cologne Life Re. Cessions under the agreement include risks for universal life, variable universal life, permanent life insurance plans and term life insurance. Thrivent Financial may request facultative reinsurance consideration for any eligible risk. Thrivent Financial's maximum retention limits under the agreement are \$2,000,000 for standard life risks, \$200,000 for accidental death, \$30,000 for accidental death, and up to \$100,000 for accidental death ages 25 through 60.

Thrivent Financial is party to a reinsurance agreement with Lincoln National Life Insurance Company that provides for Thrivent Financial cession of all individual ordinary life, waiver of premium disability, and accidental death risks, excluding plans for universal life

insurance policies. The agreement provides automatic cession of risks for products developed by Thrivent Financial. Automatic cession of eligible risks is allowed if Thrivent Financial retains its maximum limit of retention and if the sum of the amount of existing insurance already in force and the amount applied for in all companies does not exceed \$2,000,000 on individual life and waiver of premium risks and \$3,000,000 on joint life and waiver of premium risks for ages up to 60 years, and \$2,000,000 for all risks for ages 61 to 65 years. The maximum retention limit of Thrivent Financial under the agreement is \$2,000,000 for individual lives and \$3,000,000 for joint lives for standard life risks. No risks may be ceded automatically for standard life risks for lives in excess of 65 years.

Thrivent Financial cedes life insurance risks to Reinsurance Group of America under a facultative yearly renewable term reinsurance agreement. Business covered under the agreement includes standard and substandard life and joint life insurance, permanent life insurance, term life insurance, universal life, variable universal life and whole life insurance risks.

Thrivent Financial has established a first dollar automatic quota share and facultative-obligatory coverage reinsurance facility whereby the society cedes excess coverages on term life insurance risks. The participating counterparties and assuming reinsurers under separate reinsurance treaties are Transamerica Occidental Life Insurance Company (Transamerica) and RGA Reinsurance Company (RGA).

For risks on any one life up to \$20,000,000 in aggregate on all policies in force, Thrivent Financial retains a 10% quota share of risk for subject term insurance policies and automatically cedes a 67.5% first dollar quota share risk to Transamerica and a 22.5% first dollar quota share risk to RGA. For aggregate policy coverages on any one life in excess of \$20,000,000, Thrivent Financial cedes 75% facultative-obligatory quota share participation to Transamerica and 25% facultative-obligatory quota share participation to RGA for applicable term insurance policies. The reinsurance agreements with Transamerica and RGA cover 10-year term, 15-year term, and 20-year term life insurance policies. Each reinsurer has a facultative obligatory coverage binding limit for issue age limits of 20 years to 70 years of \$6,000,000 and a jumbo limit of \$50,000,000 on the facultative obligatory coverage.

Significant Closed Reinsurance

Thrivent Financial is party to a ceded reinsurance agreement with Indianapolis Life Insurance Company (Indianapolis Life) for 100% cession of survivor life insurance risks. The subject insurance business is administered by Indianapolis Life, including provision of policy forms, marketing materials, risk underwriting, policy issuance, policy service and administration, adjudication of claims, and financial, actuarial, legal and reinsurance services related to the survivor life insurance products. The reinsurance agreement was originally established by AAL to enable AAL to offer a competitive, high quality survivor life insurance product and to benefit from the specialized experience of Indianapolis Life in offering such products. Thrivent Financial discontinued marketing the survivor life insurance policy forms that are subject to the agreement with Indianapolis Life, and the business is currently in run-off.

The applicable risks that were formerly marketed and issued by AAL and Thrivent Financial are ceded to Indianapolis Life as 100% quota share reinsurance, for which Thrivent Financial remits 100% of the premiums received on the business. Thrivent Financial receives commissions on the ceded business in accordance with reinsurance agreement schedules. The reserve credits recognized by Thrivent Financial in 2004 for the business ceded to Indianapolis Life were \$44 million and equaled 58% of the aggregate reserve credits recognized by Thrivent Financial for all ceded reinsurance in 2004.

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the Thrivent Financial for Lutherans as reported to the Commissioner of Insurance in the December 31, 2004, statutory annual statement. Also included in this section are schedules which reflect the growth of the society, NAIC Insurance Regulatory Information System (IRIS) ratio results during the period under examination, and the 2004 compulsory and security surplus calculation. The examination did not result in reclassification of reported account balances or adjustment to surplus, as noted at the end of this section in the area captioned "Reconciliation of Members' Surplus per Examination."

Thrivent Financial for Lutherans
Assets
As of December 31, 2004

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$28,646,910,657	\$	\$28,646,910,657
Preferred stocks	129,601,439		129,601,439
Common stocks	1,156,985,453		1,156,985,453
Mortgage loans—first liens	5,762,749,170		5,762,749,170
Real estate:			
Occupied by the society	79,336,054		79,336,054
Held for sale	9,806,397		9,806,397
Cash	(52,549,819)		(52,549,819)
Cash equivalents	(1,161,206,881)		1,161,206,881
Short-term investments	2,769,498,037		2,769,498,037
Contract loans	1,235,188,206		1,235,188,206
Other invested assets	234,318,410		234,318,410
Receivable for securities	7,205,959		7,205,959
Write-ins for invested assets:			
Invested options	15,531		15,531
Miscellaneous invested assets	6,655,540		6,655,540
Investment income due and accrued	365,915,034	826,474	365,088,560
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	5,926,138		5,926,138
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	65,913,625		65,913,625
Reinsurance:			
Amounts recoverable from reinsurers	898,736		898,736
EDP equipment and software	54,211,678	48,479,603	5,732,075
Furniture and equipment, including health care delivery assets	25,271,054	25,271,054	0
Receivable from affiliates	20,789,189		20,789,189
Health care and other amounts receivable	14,958,036	14,958,036	0
Other assets nonadmitted:	99,677	99,677	0
Write-ins for other than invested assets:			
Unsecured loans	24,996,874	24,996,874	
Prepaid expenses	27,636,325	27,636,325	
Miscellaneous assets	3,394,968	3,394,968	
Due from property manager	796,253		796,253
Miscellaneous receivables	692,531	545,700	146,831
Total Assets excluding segregated accounts	41,757,428,033	146,208,711	41,611,219,322
From segregated accounts	<u>7,712,614,027</u>	<u>0</u>	<u>7,712,614,027</u>
Total assets	<u>\$49,470,042,060</u>	<u>\$146,208,711</u>	<u>\$49,323,833,349</u>

Thrivent Financial for Lutherans
Liabilities, Surplus, and Other Funds
As of December 31, 2004

Aggregate reserve for life contracts		\$29,565,067,214
Aggregate reserve for accident and health contracts		2,122,849,850
Liability for deposit-type contracts		1,700,661,139
Contract claims:		
Life		165,556,853
Accident and health		25,870,671
Refunds due and unpaid		640,927
Provision for refunds payable in following calendar year:		
Apportioned for payment to December 31, 2005		245,649,705
Premiums and annuity considerations received in advance		21,740,940
Contract liabilities not included elsewhere:		
Interest maintenance reserve		235,623,217
Commissions to fieldworkers due or accrued		10,386,785
General expenses due or accrued		135,534,004
Transfers to separate accounts due or accrued (net)		(159,826,415)
Taxes, licenses, and fees due or accrued		3,984,580
Unearned investment income		8,393,051
Amounts withheld or retained by society as agent or trustee		63,375,872
Remittances and items not allocated		13,085,420
Liability for benefits for employees and fieldworkers if not included above		314,127,801
Borrowed money and interest thereon		1,445,096
Miscellaneous liabilities:		
Asset valuation reserve		423,495,539
Payable to subsidiaries and affiliates		2,292,154
Payable for securities		1,462,002,352
Write-ins for liabilities:		
Collateral liability on loaned securities		2,130,967,248
Post retirement benefit liability		43,325,527
Additional minimum pension liability		21,729,725
EDP payable		3,762,870
Options written		<u>289,063</u>
Total liabilities excluding Separate Account business		38,562,031,188
From Separate Accounts statement		<u>7,701,627,045</u>
Total liabilities		46,263,658,233
Write-ins for surplus funds:		
Contingency reserve for separate account business	\$ 500,000	
Unassigned funds (including \$10,988,982 in the Separate Accounts statement)	<u>3,059,675,116</u>	
Total Surplus and Other Funds		<u>3,060,175,116</u>
Total Liabilities, Surplus, and Other Funds		<u>\$49,323,833,349</u>

**Thrivent Financial for Lutherans
Summary of Operations
For the Year 2004**

Premiums and annuity considerations for life and accident and health contracts		\$3,670,136,040
Considerations for supplementary contracts with life contingencies		189,132,515
Net investment income		2,118,491,756
Amortization of interest maintenance reserve		80,865,414
Separate Account net gain from operations excluding unrealized gains or losses		(7,154)
Commissions and expense allowances on reinsurance ceded		10,774,134
Miscellaneous income:		
Income from fees associated with investment management, administration, and contract guarantees from separate accounts		150,636,080
Aggregate write-ins for miscellaneous income:		
Miscellaneous income		3,112,154
Contribution for retirement and disability benefits		1,078,218
Commissions PNC-AIG		<u>387,386</u>
Total income items		6,224,606,543
Death benefits	\$ 531,315,985	
Matured endowments	12,214,831	
Annuity and old age benefits	442,526,737	
Disability, accident and health benefits including premiums waived	179,245,034	
Surrender benefits and withdrawals for life contracts	1,750,251,580	
Interest and adjustments on contract or deposit-type contract funds	74,355,492	
Payments on supplementary contracts with life contingencies	116,441,908	
Increase in aggregate reserve for life and accident and health contracts	<u>1,105,204,978</u>	
Subtotal	4,211,556,545	
Commissions on premiums, annuity considerations, and deposit-type contract funds	215,461,360	
General insurance expenses and fraternal expenses	608,532,778	
Insurance taxes, licenses, and fees	27,612,961	
Increase in loading on deferred and uncollected premiums	(233,936)	
Net transfers to separate accounts net of reinsurance	659,996,387	
Write-in for deductions:		
Retirement and disability benefits	22,377,899	
Employee benefits	5,162,323	
Miscellaneous expense	<u>4,303,746</u>	
Total deductions		<u>5,754,770,063</u>
Net gain from operations before refunds to members		469,836,480
Refunds to members		<u>249,138,856</u>
Net gain from operations after refunds to members and before realized capital gains		220,697,624
Net realized capital gains		<u>106,372,364</u>
Net Income		<u>\$ 327,069,988</u>

Thrivent Financial for Lutherans
Cash Flow
For the Year 2004

Premiums collected net of reinsurance		\$3,860,807,385
Net investment income		2,264,806,147
Miscellaneous income		<u>165,987,972</u>
Total		6,291,601,504
Benefit and loss payments	\$ 3,116,247,007	
Net transfers to separate, segregated accounts, and protected cell accounts	679,108,893	
Commissions, expenses paid, and aggregate write-ins for deductions	906,274,409	
Dividends paid to policyholders	<u>252,145,775</u>	
Total deductions		<u>4,953,776,084</u>
Net cash from operations		1,337,825,420
Proceeds from investments sold, matured, or repaid:		
Bonds	\$32,455,608,725	
Stocks	1,569,196,543	
Mortgage loans	735,207,084	
Real estate	145,356,637	
Other invested assets	71,365,600	
Net gains losses on cash and short-term investments	(472,337)	
Miscellaneous proceeds	<u>2,246,947,728</u>	
Total investment proceeds	37,223,209,980	
Cost of investments acquired (long-term only):		
Bonds	34,154,911,378	
Stocks	1,185,501,863	
Mortgage loans	878,626,221	
Real estate	84,798,600	
Other invested assets	45,284,556	
Miscellaneous applications	<u>929,286,010</u>	
Total investments acquired	37,278,408,628	
Net increase (or decrease) in contract loans and premium notes	<u>(8,012,142)</u>	
Net cash from investments		(47,186,506)
Cash from financing and miscellaneous sources:		
Borrowed funds received	(822,954)	
Net deposits on deposit-type contract funds and other insurance liabilities	69,091,670	
Other cash applied	<u>(109,680,393)</u>	
Net cash from financing and miscellaneous sources		<u>(41,411,677)</u>
Reconciliation		
Net change in cash and short-term investments		1,249,227,237
Cash and short-term investments, December 31, 2003		<u>2,627,927,862</u>
Cash and short-term investments, December 31, 2004		<u>\$3,877,155,099</u>

**Thrivent Financial for Lutherans
Compulsory and Security Surplus Calculation
December 31, 2004**

Assets		\$49,323,833,349
Less security surplus of insurance subsidiaries		134,007,444
Add security surplus excess of insurance subsidiaries		108,695,671
Less liabilities		<u>46,263,658,233</u>
Adjusted surplus		3,034,863,343
Annual premium:		
Individual life and health	\$1,325,344,966	
Factor		<u>15%</u>
Total	198,801,744	
Greater of 7.5% of considerations or 2% of reserves for annuities and deposit administration funds	<u>256,304,688</u>	
Compulsory surplus (subject to a \$2,000,000 minimum)		<u>455,106,432</u>
Compulsory surplus excess		<u>\$ 2,579,756,911</u>
Adjusted surplus (from above)		\$ 3,034,863,343
Security surplus: (140% of compulsory surplus, factor reduced 1% for each \$33 million in premium written in excess of \$10 million with a minimum of 110%)		<u>500,617,075</u>
Security surplus excess		<u>\$ 2,534,246,268</u>

Thrivent Financial for Lutherans
Reconciliation and Analysis of Surplus (in thousands)
For the Five-Year Period Ending December 31, 2004

The following schedule is a reconciliation of total surplus during the period under examination as reported by the society in its filed annual statements:

	2004	2003	2002	2001	2000
Surplus, beginning of year	\$2,849,396	\$2,643,813	\$2,994,200	\$3,034,725	\$3,033,190
Net income	327,070	(9,654)	(332,402)	(15,247)	244,515
Change in net unrealized capital gains or (losses)	57,950	348,898	(220,416)	(159,132)	(294,393)
Change in nonadmitted assets and related items	(23,238)	2,552	(18,304)	124	(65)
Change in reserve on account of change in valuation basis	(112,784)	24,655	(784)		(22,386)
Change in asset valuation reserve	(48,248)	(153,010)	244,655	98,083	109,203
Surplus (contributed to) withdrawn from separate accounts	1,431	35,128	(10,000)	(40,000)	
Other changes in surplus in separate accounts statement	(47)	(27,812)	3,117	40,608	
Change in surplus notes					
Cumulative effect of changes in accounting principles				34,965	
Write-ins for gains and (losses) in surplus:					
Pension liability adjustment	8,645	(15,174)	(15,201)		
Change in other reserves			28	200	
Other charges			(1,079)	(124)	(1,339)
Surplus used for dividends					(34,000)
Surplus, end of year	<u>\$3,060,175</u>	<u>\$2,849,396</u>	<u>\$2,643,813</u>	<u>\$2,994,200</u>	<u>\$3,034,725</u>

**Thrivent Financial for Lutherans
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2004**

The society's NAIC Insurance Regulatory Information System results for the period under examination are summarized below. Unusual IRIS results are denoted with asterisks and are discussed following the table of IRIS ratio data.

	Ratio	2004	2003	2002	2001	2000
#1	Net change in surplus	7%	8%	41%	3%	3%
#2	Net income to total income	5	0	-6 *	2	5
#3	Commissions and expenses to premiums and deposits			Discontinued		
#4	Adequacy of investment income	171	176	188	196	210
#5	Non-admitted to admitted assets	0	0	0	0	0
#6	Total real estate & mortgage loans to cash & invested assets	15	16	17	17	17
#7	Total affil investments to surplus	80	9	8	3	2
#8	Surplus relief	0	0	0	0	0
#9	Change in premium	-7	13	89 *	21	0
#10	Change in product mix	1.2	4.9	1.7	0.6	1.5
#11	Change in asset mix	0.8	0.3	1.1	0.1	0.3
#12	Change in reserving ratio	-6	-10	-5	1	9

The IRIS ratios reported for the years 2001 and 2000 pertain solely to financial data of AAL. The ratios reported for 2004, 2003, and 2002 reflect financial information for the present-day society, Thrivent Financial for Lutherans, subsequent to the January 1, 2002, statutory merger of AAL and LB.

The unusual IRIS result in 2002 for ratio #2, net income to total income, was primarily due to the society recording 2002 investment portfolio realized losses of \$80 million and unrealized losses of \$180 million. The unusual IRIS result in 2002 for ratio #9, change in premium, was primarily due to increased premium considerations received for fixed annuity products.

Growth of Thrivent Financial for Lutherans (in thousands)

Year	Admitted Assets	Liabilities	Members' Surplus
2004	\$41,611,219	\$38,562,031	\$3,060,175
2003	38,869,844	36,031,490	2,849,396
2002	36,405,974	33,805,886	2,643,813
2001	33,260,060	30,306,467	2,994,200
2000	31,600,943	28,566,219	3,034,725
1999	31,428,411	28,395,221	3,033,190

Life Insurance In Force (in thousands)

Year	Gross Risk In Force	Ceded	Net
2004	\$152,888,228	\$14,018,591	\$138,869,637
2003	150,100,894	9,961,592	140,139,302
2002	147,483,463	5,922,594	141,560,869
2001	143,965,278	4,664,397	139,300,881
2000	138,967,805	3,902,990	135,064,815
1999	134,332,242	1,828,090	132,504,152

Accident and Health

Year	Net Premiums Earned	Incurred Claims and Cost Containment Expenses	Commissions Incurred	Other Expenses Incurred	Combined Loss and Expense Ratio
2004	\$337,112,650	\$265,851,415	\$19,312,243	\$35,689,458	95.2%
2003	341,195,367	185,543,726	23,247,070	50,297,471	76.0
2002	329,299,067	174,375,554	28,941,644	70,379,391	83.2
2001	298,281,175	164,648,989	29,172,013	63,835,639	86.4
2000	267,109,671	139,664,432	27,230,114	55,107,478	83.1
1999	238,440,192	115,672,182	24,110,419	55,787,268	82.0

The financial data reported above for 2001 and prior years is the aggregate total of combined AAL and LB historical data and is not directly applicable to current business operations of the present-day society. Admitted assets and gross risks in force increased in each of the five years under examination. Gross life insurance in force increased by 13.8% to \$153 billion, annual life insurance premiums earned increased 2.4% to \$1.2 billion, and annual annuity considerations received increased by 29.5% to \$2.1 billion. Members' surplus decreased in 2002 by 1.3% primarily due to realized and unrealized investment losses experienced in 2002, and increased by 7.8% in 2003 and by 7.4% in 2004 due to favorable underwriting and investment

operating results. Increased life insurance premiums ceded in 2003 and 2004 are primarily due to increased issuance of excess term life insurance coverages that qualify for cession under Thrivent Financial's first dollar automatic quota share and facultative-obligatory reinsurance facility with Transamerica and RGA.

Reconciliation of Members' Surplus per Examination

As of December 31, 2004, Thrivent Financial for Lutherans reported total members' surplus of \$3,060,175,116. The current examination did not result in any examination adjustments to surplus, and did not result in any reclassification of balance sheet accounts reported in the society's 2004 statutory financial statements.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were four specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the society are as follows:

1. Security Lending Program—It is recommended that the society amend its agency agreement to include provisions requiring:
 - a. That the trust company as custodian is obligated to indemnify the society for any loss of securities of the society in the trust company's custody occasioned by the negligence or dishonesty of the trust company's officers or employees, or burglary, robbery, holdup, theft, or mysterious disappearance, including loss by damage or destruction.
 - b. That, in the event that there is a loss of the securities for which the trust company is obligated to indemnify the society, the securities shall be promptly replaced or the value of the securities and the value of any loss of rights or privileges resulting from said loss of securities shall be promptly replaced.

Action—Not Applicable. The society has established a separate securities custodial agreement and a securities lending agreement with one bank. The securities lending agreement provides that the bank serves as the society's securities lending agent, whereas the custodial agreement affords indemnification guaranty for all securities held in the custody of the bank that are subject to the society's securities lending program.

2. Security Lending Program—It is recommended that the society either include provisions requiring additional collateral requirements relating to collateral denominated in a different currency or include provisions that specify collateral must be denominated in the same currency as securities loaned.

Action—Noncompliance. However, the examination noted that there were no foreign denominated securities loaned during the period under examination. Additional comment on this area can be found under the "Summary of Current Examination Results" section below.

3. Security Lending Program—It is recommended that the society revise its agency agreement to specify the bond valuation service to be used for the daily valuation of loaned securities and that the society take steps necessary to ensure that additional collateral is promptly received when necessary to maintain 102% of securities loaned.

Action—Noncompliance. However, subsequent to the completion of examination fieldwork, the society revised its securities lending agreement and procedures to monitor collateral held for loaned securities. Additional comment on this area can be found under the "Summary of Current Examination Results" section below.

4. Mortgage Loans—It is recommended that in future annual statements, the society either create a valuation allowance (a contra-asset) for the portion of the unpaid principal balance which is not properly secured by collateral if it is considered to be a temporary difference, or write down the mortgage loan (recognizing a realized loss and establishing a new cost basis) if it is considered to be an other than temporary difference.

Action—Not Applicable. As of year-end 2004 the society did not have any mortgage loan assets that were subject to the recommended valuation practice.

Summary of Current Examination Results

Information Technology System Access Authority

Examination review determined that Thrivent Financial does not have a formal procedure for reviewing computer system access rights to ensure that all system user IDs are authorized and that the access authority for a particular individual user is commensurate with that individual's specific job responsibilities. Managers can currently review violation reports and system access reports for people they manage, but there is no formal requirement that managers periodically validate system access rights and evidence manager reviews through sign-off documentation.

It is recommended that the society establish a formal policy that requires performance and documentation of periodic review of computer system access rights, with such reviews to be performed on an annual or a more frequent basis.

Computer System Security Violation Reviews

Thrivent Financial's IT security department reviews the computer system activity log on a weekly basis for security violations related to incorrect sign-ons and unauthorized access attempts. There currently is no formal review documentation procedure or reporting process for the performance of violation reviews. A formal review documentation process for reviews of security violations would ensure that the reviews of security violations are performed and that any security issues identified by the reviews are addressed.

It is recommended that the society establish a formal review documentation process related to the review of computer system security violations.

Disaster Recovery Plan

A business continuity plan is a business plan for running a business or function under extremely stressful and time-compressed conditions. Although the primary purpose is to continue business processes, a secondary objective is to quantify and qualify the resource structure needed to support required operational commitments. A business continuity plan attempts to limit tangible and intangible losses associated with a major disruption of business operations.

Thrivent Financial recently determined that certain elements of its existing business continuity plan are not actionable in their current form because the elements do not address significant changes that occurred subsequent to the merger of AAL and LB. The society recently conducted a business impact analysis to prioritize business functions that the business continuity plan must address and is currently engaged in a three-year project from 2005 to 2007 to update its business continuity plan. The project will update the critical and essential business function elements that are determined to be not actionable under the existing outdated business continuity plan.

The commissioner regards the establishment of a comprehensive disaster recovery plan to be an essential business management practice of particular importance with regard to a large insurer. Thrivent Financial's anticipated three-year time frame for completing the business continuity plan development project leaves the society exposed to the potential for experiencing a significant business interruption event during the interim period without an adequate plan for addressing business function continuity.

To ensure that the society completes the establishment of an actionable business continuity plan in the shortest possible time, it is recommended that the society complete its updated business continuity plan for critical and essential business function elements within 12 months following the adoption of this examination report.

Identification of Loaned Securities in Statutory Financial Statements

Thrivent Financial maintains a securities lending program as a strategy to potentially obtain increased revenues from its portfolio of investment securities. As of year-end 2004 the society had a total of 909 securities that were loaned to third parties. Examination review of the securities lending program identified 81 securities loaned as of year-end 2004 that were not denoted in the society's statutory financial statements to identify the securities' status as loaned securities.

It is recommended that the society ensure that each individual loaned security is appropriately identified as a loaned security in the appropriate schedules of its statutory annual

financial statements, in compliance with the requirements of NAIC Quarterly and Annual Statement Instructions—Fraternal.

Collateral Requirements for Foreign Securities and Foreign Denominated Collateral

The examiners observe that as of year-end 2004 the society's investment in foreign denominated securities was comprised solely of one private placement security, and that the society has never engaged in any securities lending transactions for foreign denominated securities. The previous examination contained recommendation regarding provisions contained in the securities lending agency agreement related to collateral requirements for collateral received in a foreign currency. The current Securities Lending Authorization Agreement with the custodian was reviewed for compliance with the recommendation from the previous examination.

The previous recommendation also relates to SSAP 18 paragraph 25 (b). SSAP 18 accounting guidance requires stronger collateral requirements when collateral for a loaned foreign security is in a different currency denomination than the foreign security. For instance, if an insurer loaned a security denominated in euros and the collateral received was in US dollars, then the ratio of collateral to the loaned security should be 105%. However, if the collateral on that same security was denominated in euros then the 102% ratio could be maintained.

Examination review of the Securities Lending Authorization Agreement found that the agreement does establish a stronger collateral requirement provision for securities denominated in foreign currency, with exception of loaned securities that are comprised of UK Gilts (the United Kingdom's equivalent to a US treasury bond). In addition, the agreement does not have a requirement that collateral on loaned securities be denominated in the same currency as the loaned security. The current securities lending agreement has not addressed all of the components of the recommendation from the previous examination and does not conform to minimum collateral requirements provided by SSAP 18 paragraph 25 (b).

It is again recommended that the society's Securities Lending Authorization Agreement either include provisions requiring additional collateral requirements relating to collateral denominated in a different currency or include provisions that specify that collateral must be denominated in the same currency as securities loaned.

Maintenance of Minimum Required Collateral for Loaned Securities

The previous examination contained a recommendation regarding the maintenance of minimum required collateral for loaned securities. Thrivent Financial's current Securities Lending Authorization Agreement was reviewed for compliance with the recommendation from the previous examination. The prior recommendation related to maintenance of minimum collateral relative to the market value of a loaned security. The Securities Lending Authorization Agreement requires the lending agent to seek additional collateral if the ratio of the collateral held to the market value of the loaned security falls below 100% for a US security and 102% for a foreign security. However, the agreement allows for the additional collateral to maintain the ratios at 100% for all securities. The previous examination's recommendation stated that the minimum ratio to be maintained was 102%. In addition, statutory accounting guidance provided by SSAP 18 paragraph 25 (a-b) states that when additional collateral is required it should restore the collateral to loaned security ratio for a US security to 102% and to 105% for a foreign security.

It is again recommended that the society revise its securities lending agency agreement to specify the bond valuation service to be used for the daily valuation of loaned securities and that the society ensure that additional collateral is promptly received when necessary so as to maintain collateral equal to 102% of securities loaned for a US security and equal to 105% for a foreign security.

VIII. CONCLUSION

Thrivent Financial for Lutherans is a Wisconsin-domiciled fraternal benefit society insurer that offers insurance, annuity, and investment products to its members. The present society was established effective January 1, 2002, when the Lutheran Brotherhood fraternal society merged with and into Aid Association for Lutherans. AAL changed its name to Thrivent Financial for Lutherans effective May 21, 2002.

During the five-year period under examination, gross life insurance in force increased by 13.8% to \$153 billion, annual life insurance premiums earned increased 2.4% to \$1.2 billion, and annual annuity considerations received increased by 41.9% to \$2.1 billion. Surplus increased by 1% to \$3.06 billion as of year-end 2004. The total number of society members in 2004 was approximately equal to the combined memberships of AAL and LB in 1999 when adjusted to eliminate the effect of individuals who were members of both of the predecessor societies.

Thrivent Financial maintains statutory separate accounts in which assets and liabilities for the society's variable insurance and annuity products are administered. Separate accounts assets and liabilities represent the interests of variable accounts contract holders and are not included in the data for the Thrivent Financial general accounts. As of December 31, 2004, the Thrivent Financial for Lutherans Separate Accounts reported statutory total assets of \$7,712,614,027, total liabilities of \$7,701,627,045, and surplus of \$10,986,982.

This examination of Thrivent Financial as of December 31, 2004, resulted in six recommendations. Two of the current recommendations were reported as findings in the previous examination of the society and are repeated by the current examination. The current examination did not result in any adjustments to 2004 reported surplus and did not result in any reclassification of accounts reported in the society's 2004 statutory financial statements. As of December 31, 2004, the society reported total net admitted assets of \$49,323,833,349, total liabilities of \$46,263,658,233, and surplus of \$3,060,175,116.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 36 - Information Technology System Access Authority—It is recommended that the society establish a formal policy that requires performance and documentation of periodic review of computer system access rights, with such reviews to be performed on an annual or a more frequent basis.
2. Page 36 - Computer System Security Violation Reviews—It is recommended that the society establish a formal review documentation process related to the review of computer system security violations.
3. Page 37 - Disaster Recovery Plan—To ensure that the society completes the establishment of an actionable business continuity plan in the shortest possible time, it is recommended that the society complete its updated business continuity plan for critical and essential business function elements within 12 months following the adoption of this examination report.
4. Page 37 - Identification of Loaned Securities in Statutory Financial Statements—It is recommended that the society ensure that each individual loaned security is appropriately identified as a loaned security in the appropriate schedules of its statutory annual financial statements, in compliance with the requirements of NAIC Quarterly and Annual Statement Instructions—Fraternal.
5. Page 38 - Collateral Requirements for Foreign Securities and Foreign Denominated Collateral—It is again recommended that the society's Securities Lending Authorization Agreement either include provisions requiring additional collateral requirements relating to collateral denominated in a different currency or include provisions that specify that collateral must be denominated in the same currency as securities loaned.
6. Page 39 - Maintenance of Minimum Required Collateral for Loaned Securities—It is again recommended that the society revise its securities lending agency agreement to specify the bond valuation service to be used for the daily valuation of loaned securities and that the society ensure that additional collateral is promptly received when necessary so as to maintain collateral equal to 102% of securities loaned for a US security and equal to 105% for a foreign security.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the society is acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

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Respectfully submitted,

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Examiner-in-Charge